



**Umzambe**  
M U N I C I P A L I T Y

**Annual Financial Statements  
For The Year Ended 30 June 2012**

**Auditor General South Africa**

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## General Information

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<b>Legal form of entity</b>	Municipality
<b>Nature of business and principal activities</b>	Providing services to the community of Umzumbe
<b>Executive Committee</b>	Councillor Gumede ST (Mayor) Councillor Dlamini NY (Deputy Mayor) Councillor Ngcobo (Speaker) Councillor Mntambo JP (Exco Member) Councillor Zungu MPL (Exco Member) Councillor Shozi MP (Exco Member) Councillor Duma YL (Exco Member) Councillor Ndlovu M (Exco Member)
<b>Councillors</b>	Councillor Gwabe CS Councillor Mqadi MR Councillor Maluleka SP Councillor Radebe SP Councillor Peters TL Councillor Mkhize MJ Councillor Mbayi TM Councillor Mhlangu NE Councillor Mbhele KBM Councillor Cele SR Councillor Mdletshe MS Councillor Luthuli MZ Councillor Hlongwa PA Councillor Mbambo OJ Councillor Zindela AE Councillor Caluza N Councillor Mbhele BI Councillor Shezi CL Councillor Z Shozi Councillor M Mtolo Councillor Khuzwayo M Councillor Caluza B Councillor Doncabe KS Councillor Gasas SC Councillor Shozi NB Councillor M Hlongwa Councillor Khuzwayo T Councillor Lushaba S Councillor Msomi DK
<b>Accounting Officer</b>	Ms NC Mgijima
<b>Registered office</b>	Sipofu Road Mathulini Tribal Authority 4220

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## General Information

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<b>Business address</b>	Sipofu Road Mathulini Tribal Authority 4220
<b>Postal address</b>	P.O. Box 561 Hibberdene 4220
<b>Bankers</b>	ABSA Bank Limited
<b>Auditors</b>	Auditor General South Africa

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Index

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The reports and statements set out below comprise the annual financial statements presented to the Council:

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### Abbreviations

GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
UIF	Unemployment Insurance Fund
PAYE	Pay As You Earn

# **Umzumbe Local Municipality**

Annual Financial Statements for the year ended 30 June 2012

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2012 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the grant allocations through the Division of revenue act (DORA) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umzumbe Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's Chief Financial Officer.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 31, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2012 and were signed on its behalf by the accounting officer:

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 16 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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**Ms NC Mqijima**  
**Municipal Manager**

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
<b>Assets</b>			
<b>Current Assets</b>			
Operating lease asset		-	179 897
Receivables from Exchange Transactions	3	480 903	540 771
VAT Receivable	4	5 154 868	7 204 282
Trade and Other Receivables from Non Exchange Transactions	5	723 270	527 778
Cash and Cash Equivalents	6	51 426 807	15 617 517
		<b>57 785 848</b>	<b>24 070 245</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	2	122 573 883	113 066 235
<b>Total Assets</b>		<b>180 359 731</b>	<b>137 136 480</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and Other Payables	9	1 821 184	5 229 789
Unspent Conditional Grants and Receipts	7	13 147 101	1 445 624
Provisions	8	1 894 556	1 306 192
		<b>16 862 841</b>	<b>7 981 605</b>
<b>Total Liabilities</b>		<b>16 862 841</b>	<b>7 981 605</b>
<b>Net Assets</b>		<b>163 496 890</b>	<b>129 154 875</b>
<b>Net Assets</b>			
Accumulated Surplus		163 496 890	129 154 875

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
<b>Revenue</b>			
Property Rates	10	2 355 091	1 542 607
Government Grants & Subsidies	11	92 595 949	95 485 756
Other Income	13	900 983	729 912
Interest received	12	1 893 608	1 420 804
<b>Total Revenue</b>		<b>97 745 631</b>	<b>99 179 079</b>
<b>Expenditure</b>			
Employee Related Costs	15	(18 949 799)	(15 977 840)
Remuneration of Councillors	16	(9 079 546)	(7 863 775)
Depreciation Amortisation and Impairment	18	(7 958 767)	(6 123 338)
Debt Impairment	17	(254 718)	(188 278)
Repairs and Maintenance		(1 123 283)	(657 265)
Community Participation		(1 539 892)	(3 096 705)
General Expenses	14	(26 366 344)	(23 299 042)
<b>Total Expenditure</b>		<b>(65 272 349)</b>	<b>(57 206 243)</b>
Loss on Disposal of Assets		(85 481)	(342 275)
<b>Surplus For The Year</b>		<b>32 387 801</b>	<b>41 630 561</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Statement of Changes in Net Assets

Figures in Rand	Accumulated Surplus	Total net assets
<b>Balance at 01 July 2010</b>	<b>87 524 314</b>	<b>87 524 314</b>
Changes in Net Assets		
Surplus For The Year	41 630 561	41 630 561
Total Changes	41 630 561	41 630 561
<b>Balance at 01 July 2011</b>	<b>129 154 875</b>	<b>129 154 875</b>
Changes in Net Assets		
Surplus For The Year	32 387 801	32 387 801
Prior year Adjustment	1 954 214	1 954 214
Total Changes	34 342 015	34 342 015
<b>Balance at 30 June 2012</b>	<b>163 496 890</b>	<b>163 496 890</b>
Note(s)		



# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
<b>Cash Flows From Operating Activities</b>			
<b>Receipts</b>			
Cash Receipts for Equitable Share, Conditional Grants		104 309 997	79 499 345
Cash Receipts from Customers		2 828 337	1 422 029
Interest Income		1 893 608	1 420 804
		<u>109 031 942</u>	<u>82 342 178</u>
<b>Payments</b>			
Cash Paid to Suppliers and Employees		(57 601 035)	(51 317 901)
<b>Net Cash Flows From Operating Activities</b>	19	<b><u>51 430 907</u></b>	<b><u>31 024 277</u></b>
<b>Cash Flows From Investing Activities</b>			
Purchase of Property, Plant and Equipment	2	(17 490 350)	(35 480 402)
Proceeds from Sale of Property, Plant and Equipment	2	-	467 035
Prior Year Adjustments		1 954 214	151 934
Other Cash Item		-	10 456
<b>Net Cash Flows From Investing Activities</b>		<b><u>(15 621 617)</u></b>	<b><u>(35 193 252)</u></b>
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>		<b>35 809 290</b>	<b>(4 168 975)</b>
Cash and Cash Equivalents at the Beginning of the Year		15 617 517	19 786 492
<b>Cash and Cash Equivalents at the End of the Year</b>	6	<b><u>51 426 807</u></b>	<b><u>15 617 517</u></b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below:

GRAP - 1 Presentation of Financial Statements

GRAP - 2 Cashflow Statements

GRAP - 3 Accounting Policies, Changes in Accounting Estimates and Errors

GRAP - 9 Revenue from Exchange Transactions

GRAP - 13 Leases

GRAP - 17 Property Plant and Equipment

GRAP - 19 Provisions, Contingent Liabilities and Contingent Assets

GRAP - 26 Impairment of Cash Generating Assets

GRAP - 31 Intangible Assets

GRAP - 14 Events after the reporting date

#### **The following GRAP standards have been issued but are not yet effective**

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been early adopted by the municipality:

GRAP 18 - Segment Reporting

GRAP 21 - Impairment of non-cash-generating Assets

GRAP 23 - Revenue from non-exchange transactions

GRAP 24 - Presentation of Budget Information in Financial Statements

GRAP 25 - Employee benefits

GRAP 26 - Impairment of Cash-generating assets

GRAP 103 - Heritage assets

GRAP 104 - Financial Instruments

GRAP 105 - Transfer of functions between entities under common control

GRAP 106 - Transfer of functions between entities not under common control

GRAP 107 - Mergers

GRAP 20 - Related party disclosures

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.1 Property, Plant and Equipment

Property, Plant and Equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, Plant and Equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Property, Plant and Equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, Plant and Equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life (Years)
• Dwellings	5-30
• Electricity	3-80
• Non Residential Dwellings	10-30
• Solid Waste Disposal	5-55

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.1 Property, Plant and Equipment (continued)

• Roads	3-100
• Furniture and Office Equipment	3-10
• Transport Assets	4-20
• Computer Equipment	5-10
• Machinery and Equipment	2-20
• Water	5-100

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.2 Intangible Assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible Assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible Assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life (Years)
Computer Software	3-5

### 1.3 Financial Instruments

#### Trade and Other Receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.3 Financial Instruments (continued)

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

#### Trade and Other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### Bank Overdraft and Borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

### 1.4 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating Leases - Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.5 Employee Benefits

#### Short-Term Employee Benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined Contribution Plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The Municipality's employees are members of the following Benefit Schemes. Natal Joint Municipal Pension Fund (a State and Multi Employer Defined Benefit Plan). Kwazulu Natal Joint Provident Fund (a State and Multi Employer Defined Contribution Plan). Along with other Municipalities in the province of Kwazulu Natal, uMzumbe participates in a multi employer defined plan. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other municipalities participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual municipalities participating in the plan. uMzumbe therefore accounts for the plan as if it were defined contribution plan per Exposure Draft No. 49.

#### Pension, Provident, Retirement Benefits and Group Life Scheme

The municipality provides retirement benefits for its employees in the form of both defined benefit and defined contribution plans. The municipality is no longer providing a retirement benefits for the councilors, because they are now getting a total package.

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement. A defined contribution plan is a plan under which the municipality pays a fixed contribution into a separate entity. The municipality has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior period.

The contributions to fund obligations for the payment of retirement benefits are charged against the revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognized as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.6 Provisions and Contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Contingent assets and contingent liabilities are not recognised but disclosed as a note in the financial statements.26.

### 1.7 Revenue

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from unconditional grants are recognised immediately upon receipt.

Revenue from Tender sales is recognised when the bidders have actually bought the tender documents and cash has been received.

#### Rates

Revenue from rates is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### Conditional Grants and Receipts

Conditional grants, donations and funding are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If grants are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.



# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.8 Comparative Figures

Where necessary, comparative figures have been reclassified and restated to conform to changes in presentation in the current year.

### 1.9 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.10 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.11 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.12 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.13 Presentation of currency

These annual financial statements are presented in South African Rand.

### 1.14 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 1.15 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.16 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

### 1.17 Value Added Tax (VAT)

The municipality accounts for value Added Tax on the cash basis with respect to the South African Revenue Service

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand

2012

2011

### 2. Property, Plant and Equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Solid Waste Disposal	37 794	(6 597)	31 197	37 794	(4 892)	32 902
Dwellings	431 776	(149 209)	282 567	431 776	(105 943)	325 833
Computer Equipment	1 605 649	(979 301)	626 348	1 608 772	(851 632)	757 140
Furniture & Office Equipment	2 378 443	(1 372 173)	1 006 270	2 231 910	(1 136 849)	1 095 061
Non Residential Dwellings	48 533 401	(10 657 369)	37 876 032	48 450 912	(8 977 126)	39 473 786
Transport Assets	3 462 679	(914 977)	2 547 702	2 591 858	(620 918)	1 970 940
Machinery & Equipment	3 175 427	(1 489 883)	1 685 544	3 181 825	(1 274 836)	1 906 989
Roads	69 555 742	(11 653 951)	57 901 791	65 326 821	(6 466 579)	58 860 242
Assets under construction	20 616 432	-	20 616 432	8 643 342	-	8 643 342
<b>Total</b>	<b>149 797 343</b>	<b>(27 223 460)</b>	<b>122 573 883</b>	<b>132 505 010</b>	<b>(19 438 775)</b>	<b>113 066 235</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand

### 2. Property, Plant and Equipment (continued)

#### Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Revaluations	Disposal Accumulated Depreciation	Depreciation	Impairment loss	Total
Solid Waste Disposal	32 902	-	-	-	-	-	(1 705)	-	31 197
Dwellings	325 833	-	-	-	-	-	(43 266)	-	282 567
Computer Equipment	757 140	186 473	(190 343)	-	747	130 958	(235 849)	(22 778)	626 348
Assets Under Construction	8 643 342	16 188 338	-	(4 215 248)	-	-	-	-	20 616 432
Furniture & Office Equipment	1 095 061	202 941	(56 409)	-	-	37 056	(268 295)	(4 084)	1 006 270
Non Residential Dwellings	39 473 786	-	-	82 488	-	-	(1 663 000)	(17 242)	37 876 032
Transport Assets	1 970 940	877 237	(6 416)	-	-	1 468	(295 527)	-	2 547 702
Machinery Equipment	1 906 989	-	(6 397)	-	-	4 600	(217 819)	(1 829)	1 685 544
Roads	58 860 242	96 161	-	4 132 760	-	-	(5 178 442)	(8 930)	57 901 791
	<b>113 066 235</b>	<b>17 551 150</b>	<b>(259 565)</b>	<b>-</b>	<b>747</b>	<b>174 082</b>	<b>(7 903 903)</b>	<b>(54 863)</b>	<b>122 573 883</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand

### 2. Property, Plant and Equipment (continued)

#### Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Solid Waste Disposal	34 603	-	-	-	(1 701)	32 902
Dwellings	369 010	-	-	-	(43 177)	325 833
Computer Equipment	834 205	229 394	(17 432)	-	(289 027)	757 140
Assets Under construction	15 604 878	24 261 665	-	(31 223 201)	-	8 643 342
Furniture & Office Equipment	1 223 745	185 420	(23 868)	-	(290 236)	1 095 061
Non ResidentialDwellings	38 920 710	1 129 534	-	1 019 699	(1 596 157)	39 473 786
Transport Assets	1 868 353	852 941	(400 851)	-	(349 503)	1 970 940
Machinery Equipment	2 325 516	7 500	(165 076)	-	(260 951)	1 906 989
Roads	23 135 377	8 813 948	-	30 203 502	(3 292 585)	58 860 242
	<b>84 316 397</b>	<b>35 480 402</b>	<b>(607 227)</b>	<b>-</b>	<b>(6 123 337)</b>	<b>113 066 235</b>

#### Impairment of Assets

Impairment is as a result of condition assessments performed during the physical verification

Description	Impairment loss	Impairment reversals	Net adjustment to accumulated impairment
Computer Equipment	22 778	-	22 778
Furniture and office equipment	4 085	-	4 085
Machinery and Equipment	1 829	-	1 829
Non residential dwellings	730 881	(713 638)	17 242
Roads	39 898	(30 969)	8 929
	<b>799 471</b>	<b>(744 607)</b>	<b>54 863</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>3. Receivables from exchange transactions</b>		
Sundry debtors	467 874	537 833
Interest	13 029	2 938
Rei Management	2 379 003	2 379 003
Rei Management (Provision for Bad debts)	(2 379 003)	(2 379 003)
	<b>480 903</b>	<b>540 771</b>
<b>4. VAT receivable</b>		
Value Added Tax (VAT)	5 154 868	7 204 282
The municipality is predominantly funded by Government Grants which are zero rated. Therefore VAT input has been claimed which has not been received as yet.		
<b>5. Trade and other receivables from non exchange transactions</b>		
<b>Gross balances</b>		
Rates	1 260 405	810 195
<b>Less: Provision for debt impairment</b>		
Rates	(537 135)	(282 417)
<b>Net balance</b>		
Rates	723 270	527 778
<b>Rates</b>		
Current (0 -30 days)	-	82 535
31 - 60 days	-	22 649
61 - 90 days	-	15 835
91 - 120 days	-	81 168
121 - 365 days	723 270	325 591
	<b>723 270</b>	<b>527 778</b>
<b>Reconciliation of debt impairment provision</b>		
Balance at beginning of the year	(282 417)	(94 139)
Contributions to provision	(254 718)	(188 278)
	<b>(537 135)</b>	<b>(282 417)</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

Cash on hand	1 264	606
Bank balances	41 853 142	6 044 510
Short-term deposits	9 572 401	9 572 401
	<b>51 426 807</b>	<b>15 617 517</b>

The short-term deposits refer to investments held in First National Bank Ltd in Port Shepstone.

### The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances		
	30 June 2012	30 June 2011	30 June 2012	30 June 2011	
ABSA BANK LTD - Port Shepstone - 40-7276-2850	41 200 689	7 297 645	-	41 138 958	5 355 089
ABSA Housing Account - Port Shepstone - 40-7278-0715	598 710	577 438	-	598 710	577 438
ABSA MIG Account - Port Shepstone 40 - 7277-6506	115 474	111 983	-	115 474	111 983
<b>Total</b>	<b>41 914 873</b>	<b>7 987 066</b>	<b>-</b>	<b>41 853 142</b>	<b>6 044 510</b>

### 7. Unspent Conditional Grants and Receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Project Consolidate	99 885	74 951
Municipal systems improvement grant	-	158 002
Municipal infrastructure grant	10 270 348	(723 648)
GIS grant	36 340	73 846
Low cost housing grant	598 746	577 473
Internal Auditor	141 782	285 000
KZN Pounds Act	1 000 000	1 000 000
Ntelezi Msane	1 000 000	-
	<b>13 147 101</b>	<b>1 445 624</b>

#### Movement during the year

Balance at the beginning of the year	1 445 624	15 796 416
Adjustment to opening balance	(12 573)	-
Additions during the year	28 111 997	19 978 180
Income recognition during the year	(16 397 947)	(34 328 972)
	<b>13 147 101</b>	<b>1 445 624</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited.

See Note11 for reconciliation of grants from National/Provincial Government.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 8. Provisions

#### Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Leave pay	1 306 192	816 172	(227 808)	1 894 556

#### Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Leave pay	979 985	1 306 192	(316 319)	(663 666)	1 306 192

### 9. Trade and Other Payables

Trade payables	1 435 498	5 027 650
Other payables	365 686	182 139
Rental Deposits	20 000	20 000
	<b>1 821 184</b>	<b>5 229 789</b>

### 10. Property rates

#### Rates received

Property rates	2 355 091	1 542 607
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# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>11. Government grants and subsidies</b>		
Equitable share	76 198 000	60 966 790
MIG	13 661 004	31 921 714
MSIG	948 002	591 998
Low Cost Housing Grant	145 725	630 254
Financial Management Grant	1 500 000	1 250 000
Youth Advisory Centre	-	125 000
Internal Audit Grant	143 218	-
	<b>92 595 949</b>	<b>95 485 756</b>
<b>Project Consolidate</b>		
Balance unspent at beginning of year	74 951	74 951
Opening balance adjustment	24 934	-
	<b>99 885</b>	<b>74 951</b>
<b>Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	158 002	-
Current-year receipts	790 000	750 000
Conditions met - transferred to revenue	(948 002)	(591 998)
	<b>-</b>	<b>158 002</b>
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	(723 648)	14 553 066
Current-year receipts	24 655 000	16 645 000
Conditions met - transferred to revenue	(13 661 004)	(31 921 714)
	<b>10 270 348</b>	<b>(723 648)</b>
<b>GIS Grant</b>		
Balance unspent at beginning of year	73 846	73 846
Opening balance correction	(37 506)	-
	<b>36 340</b>	<b>73 846</b>
<b>Low Cost Housing Grant</b>		
Balance unspent at beginning of year	577 473	961 586
Current-year receipts	166 997	246 141
Conditions met - transferred to revenue	(145 724)	(630 254)
	<b>598 746</b>	<b>577 473</b>
<b>Internal Auditor Grant</b>		
Balance unspent at beginning of year	285 000	285 000
Conditions met - transferred to revenue	(143 218)	-
	<b>141 782</b>	<b>285 000</b>
<b>KZN Pounds Act Grant</b>		
Balance unspent at beginning of year	1 000 000	1 000 000

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>11. Government grants and subsidies (continued)</b>		
<b>Ntelezi Msane Grant</b>		
Current-year receipts	1 000 000	-
<b>Financial Management Grant</b>		
Current-year receipts	1 500 000	1 500 000
Conditions met - transferred to revenue	(1 500 000)	(1 500 000)
	-	-
<b>12. Interest Received</b>		
Interest received on Investments	1 893 608	1 420 804
<b>13. Other Income</b>		
Creditors discount-Finance & Admin-Finance	-	246 561
Rental income-Finance & Admin-Finance	108 772	30 000
Tender income-Finance & Admin-Finance	62 500	89 456
Other Income	729 711	363 895
	<b>900 983</b>	<b>729 912</b>
<b>14. General expenses</b>		
Advertising	357 480	143 201
Auditors remuneration	701 528	477 483
Bank charges	82 301	87 147
Consulting and professional fees	1 047 879	1 650 037
Consumables	109 329	88 713
Functions and refreshments	154 004	153 035
Insurance	307 954	28 071
Bursaries	459 323	540 552
Conferences and seminars	182 523	91 022
Lease rentals on operating lease	249 173	97 438
Marketing	96 886	106 586
Magazines, books and periodicals	1 163	267
Motor vehicle expenses	701 435	830 634
Printing and stationery	295 574	457 859
Security (Guarding of municipal property)	236 630	232 873
Telephone and fax	1 044 964	1 311 349
Training	479 671	446 080
Subsistence and Travel	1 004 374	735 668
Electricity	54 390	45 073
Free basic services (Electricity & Water)	2 895 911	3 134 991
Uniforms	25 439	22 090
Tourism development	435 928	211 321
Projects expenditure	7 818 795	6 555 642
Other expenses	7 623 690	5 851 910
	<b>26 366 344</b>	<b>23 299 042</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>15. Employee related costs</b>		
Basic	12 059 274	10 646 194
Bonus	1 403 243	798 902
Medical aid - company contributions	606 993	546 754
UIF	82 486	78 877
SDL	225 219	180 157
Leave pay provision charge	357 601	187 384
Pension Contribution	1 311 750	1 185 766
Travel, motor car, accommodation, subsistence and other allowances	2 576 058	2 164 920
Overtime payments	144 771	99 059
Acting allowances	40 053	72 766
Housing benefits and allowances	-	4 603
Other Salary costs	142 351	12 458
	<b>18 949 799</b>	<b>15 977 840</b>

### Remuneration of Municipal Manager

Annual Remuneration	242 965	74 086
Car Allowance, Entertainment and Telephone Allowance	80 772	58 802
Acting Allowance	22 053	-
Housing Allowances	-	4 603
Other	31 232	1 067
	<b>377 022</b>	<b>138 558</b>

From 1 July 2011 to 31 January 2012, Dr MJ Mgesi was the acting Municipal Manager. On 1 February 2012 Ms NC Mgijima was appointed as the Municipal Manager

### Remuneration of Chief Financial Officer

Annual Remuneration	450 853	421 126
Car, Entertainment and Telephone Allowances	127 000	112 000
Performance Bonuses	96 525	-
Other	8 527	921
	<b>682 905</b>	<b>534 047</b>

### Remuneration Corporate Services Director

Annual Remuneration	318 268	388 593
Car, Entertainment and telephone Allowances	98 453	130 686
Performance Bonuses	-	38 295
Leave Payout	35 560	-
Other	4 326	25 719
	<b>456 607</b>	<b>583 293</b>

### Remuneration of Technical Services Director

Annual Remuneration	450 853	421 126
Car, Entertainment and Telephone Allowances	127 000	112 000
Other	5 065	248
	<b>582 918</b>	<b>533 374</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>15. Employee related costs (continued)</b>		
<b>Remuneration of Social &amp; Economic Development</b>		
Annual Remuneration	363 627	331 717
Car Allowance	192 000	187 562
Performance Bonuses	27 781	-
Other	17 200	43 308
	<b>600 608</b>	<b>562 587</b>
<b>16. Remuneration of councillors</b>		
Mayor	565 098	524 129
Deputy Mayor	528 550	482 224
Speaker	523 816	458 552
Councillors	7 462 082	6 398 870
	<b>9 079 546</b>	<b>7 863 775</b>
<b>17. Debt impairment</b>		
Contributions to debt impairment provision	254 718	188 278
<b>18. Depreciation and amortisation</b>		
Property, Plant and Equipment	7 958 767	6 123 338
<b>19. Cash generated from operations</b>		
Surplus	32 387 801	41 630 561
<b>Adjustments for:</b>		
Depreciation and amortisation	7 958 767	6 123 338
Loss on sale of assets	85 481	342 275
Debt impairment	254 718	188 278
Prior year adjustments	179 897	-
Movements in provisions	588 364	326 207
Other non-cash items	23 935	(151 930)
<b>Changes in working capital:</b>		
Operating Lease Asset	-	(132 785)
Receivables from exchange transactions	59 868	(180 394)
Consumer debtors	(450 210)	(120 578)
Trade and Other Payables	(3 408 605)	(1 397 226)
VAT	2 049 414	(1 252 677)
Unspent Conditional Grants and Receipts	11 701 477	(14 350 792)
	<b>51 430 907</b>	<b>31 024 277</b>
<b>20. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Approved and contracted for:</b>		
• Infrastructure	11 405 866	34 639 076
<b>Approved but not yet contracted for:</b>		
• Infrastructure	35 518 388	13 297 142

This committed expenditure relates to Infrastructure and will be financed by Government grants.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>21. Related Party Transactions</b>		
<b>Section 45 (2) and 44 of SCM Regulations</b>		
<b>Purchases from a company owned by a councillor (MA Sikhosana)</b>		
ZOPHAKA CATERING AND TRADING ENTERPRISE	5 000	-
<b>22. Unauthorised expenditure</b>		
Opening balance	2 379 003	4 783 504
Less: Amounts condoned	-	(2 404 501)
	<b>2 379 003</b>	<b>2 379 003</b>
<b>23. Fruitless and wasteful expenditure</b>		
Opening balance	30 253	118 150
Current year expenditure	14 779	30 253
Less: Amounts condoned	(30 253)	(118 150)
	<b>14 779</b>	<b>30 253</b>
The municipality incurred fruitless and wasteful expenditure of R14 779 due to interest and penalties arising from late payments to Eskom and Telkom		
<b>Action</b>		
The expenditure will be tabled to council for condonement.		
<b>24. Irregular expenditure</b>		
Opening balance	1 225 369	4 895 216
Add: Irregular Expenditure - current year	7 387 669	1 225 369
Less: Amounts condoned	(1 225 369)	(4 895 216)
	<b>7 387 669</b>	<b>1 225 369</b>
<b>Details of irregular expenditure – current year</b>		
The municipality did not apply the preference point system in the procurement of goods and services above R30 000. In addition these suppliers did not have valid tax clearance certificates. As a result the municipality incurred irregular expenditure amounting to	Action	6 983 004
	The matter will be tabled before Council for condonement.	
During the year, the municipality procured from suppliers who were in the service of the state. As a result, irregular expenditure of R399 664.80 was incurred which was beyond the control of the municipality as the municipality had relied on declarations forms and was unable to verify these declarations.	The expenditure will be tabled to council for condonement.	399 665
The municipality procured services from a company which is owned by a councillor from the municipality. As a result the municipality incurred irregular expenditure amounting to R5000.	The expenditure will be tabled to council for condonement.	5 000
		<b>7 387 669</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>25. Prior year adjustments</b>		
<b>Adjustment for prior year errors</b>		
Correction of over realisation of Housing Grants	-	151 934
Correction of operating lease asset : These are corrections on wrong lease calculations in the prior years. All of the leases ended in the current year.	179 897	-
Correction on of uspent portion on Project consolidate grant and GIS Grant - These are prior year grant misallocations	(12 573)	-
Reversal of Prior years takeon balances. These are duplicated accruals done when pastel evolution was implemented and accrued expenses which where already paid.	(2 058 025)	-
Correction of RTS reversed in the wrong year. This was a return to supplier which was processed in the wrong financial year.	(66 316)	-
Correction of prior year billing. Restatement of billing errors in the prior year	6 375	-
Correction of creditor balance. These are prior year errors on creditors which where corrected in the current year.	(3 572)	-
	<b>(1 954 214)</b>	<b>151 934</b>

## 26. Contingencies

No contingent liabilities have been identified at year end.

## 27. Risk management

### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

### Interest rate risk

The municipality has interest-bearing assets of R9 572 401, (2011 - R9 572 401). However, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and rates debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument		
Trade and other receivables from non exchange transactions (Rates)	723 270	527 778
Absa bank	41 914 873	7 987 066

## 28. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 29. Additional disclosure in terms of Municipal Finance Management Act

### Contribution to Local Government Associations

Current year subscription	243 975	125 505
Amount paid	(243 975)	(125 505)
	<b>-</b>	<b>-</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>29. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>Audit fees</b>		
Current year fee	701 528	477 483
Amount paid - current year	(701 528)	(477 483)
	-	-
<b>PAYE and UIF</b>		
Current year deductions	4 203 304	3 163 683
Amount paid	(4 203 304)	(3 163 683)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year	3 206 547	2 968 075
Amount paid	(3 206 547)	(2 968 075)
	-	-

### VAT

VAT output payables and VAT input receivables are shown in note 4.

All VAT returns have been submitted by the due date throughout the year.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 30. Multi Employer Retirement Benefit

All full-time employees belong to the KwaZulu Natal Joint Municipal Pension Fund, which are made up by the Retirement, Superannuation and Provident Funds. Councillors have the option to belong to the Pension Fund for Municipal Councillors.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance for the Pension Fund represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation. For both the Superannuation and Retirement Funds valuations making use of the Discontinuance Method Approach have been included as well.

#### DEFINED BENEFIT SCHEMES

Retirement Fund:

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 31 March 2011

The interim actuarial valuation performed as at 31 March 2011 revealed that the fund had a shortfall of R 382,3 (31 March 2010: shortfall of R 242,2) million, with a funding level of 84,1% (31 March 2010: 88,2%). The contribution rate, including the surcharges below, paid by the members (8,65%) and municipalities (29,00%) should be sufficient to eradicate the shortfall in the fund by 31 March 2015. However, the basic contribution payable is 4,72% less than the required contribution rate.

The actuarial shortfall is taken into account by determining surcharges, to be met by increased contributions. These surcharges amount to 17% of pensionable emoluments, of which 1,65% is payable by members and 15,35% is payable by the local authority

This surcharge is payable until 31 March 2015. It is necessary that the basic employer contribution be increased by 4,72% to 18,37% and the surcharge be increased to 17,5% and extended by a further 3 years to 31 March 2018. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 34,22% with effect from 1 August 2012 for an indefinite period of time.

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund.

Superannuation Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2011.

The interim actuarial valuation performed as at 31 March 2011 revealed that the fund had a shortfall of R 549,5 (31 March 2010: shortfall of R 213,3) million, with a funding level of 90,9% (31 March 2010: 95,9%). The contribution rate paid by the



# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

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### 30. Multi Employer Retirement Benefit (continued)

members (9,25%) and municipalities (18,00%) is 3,63% (31 March 2010: 1,69%) less than the required contribution rate for future service and will be reviewed at the next interim valuation. The deficit in respect of active members is being met by a surcharge of 7,0% of pensionable salaries. It was expected that the deficit will be fully funded by 2016.

This surcharge is payable until 31 March 2015. It is necessary that the basic employer contribution be increased by 4,72% to 18,37% and the surcharge be increased to 17,5% and extended by a further 3 years to 31 March 2018. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 31,13% with effect from 1 August 2012 for an indefinite period of time.

It is intended that the Fund will merge with the Retirement Fund in the near future.

### DEFINED CONTRIBUTION SCHEMES

Municipal Councillors Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The interim valuation performed as at 30 June 2011 revealed that the assets of the fund amounted to R 1 483,786 381 (30 June 2010: R 1 123,672 020) million. The contribution rate paid by the members (13.75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

As reported by the Actuaries, the Fund was in a sound financial condition as at 30 June 2011.

Provident Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2011.

The interim actuarial valuation performed as at 31 March 2011 revealed that the market value of the fund was R 1 056,2 (31 March 2010: R 836,4) million. The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 1,95 times the member's contributions by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in sound financial condition as at 31 March 2011.

None of the above mentioned plans are State Plans.

# **Umzumbe Local Municipality**

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